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Accounting for bilateral development aid

Sector budget support, Uganda case study

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Contents

1 About this audit

1.1 Budget support

Budget support is a bilateral aid instrument that is provided in one of two modes:

- General budget support (GBS); a recipient country that satisfies the conditions of good governance, good policy and dialogue receives funds that are not earmarked for a specific purpose. The donor country, however, sets preconditions on the use of the funds.
- Sector budget support (SBS); the donor provides earmarked funds to the government of the partner country on condition that it uses them in a specific sector, for example education. In this mode, too, the donor country also sets preconditions, for example regarding good governance.

In 2011 the Rutte/Verhagen government provided € 65.5 million in general budget support and €61.8 million in sector budget support (BuZa, 2011d).

Donors developed budget support in response to criticism that the project aid they were providing was fragmented and uncoordinated (World Bank, 1998). It was assumed that aid would be more effective, more efficient and more sustainable if government capacity in partner countries was strengthened so that they could bear responsibility themselves. Budget support is one of the aid instruments a donor can use in a partner country alongside projects and programmes.

Some donors, including the Netherlands, are now phasing out GBS. GBS, it is thought, represents a blank cheque for governments that make too little progress introducing the principles of good governance. Other donors, including the World Bank and the European Union, see GBS as one of the most important aid instruments.

1.2 Mutual accountability

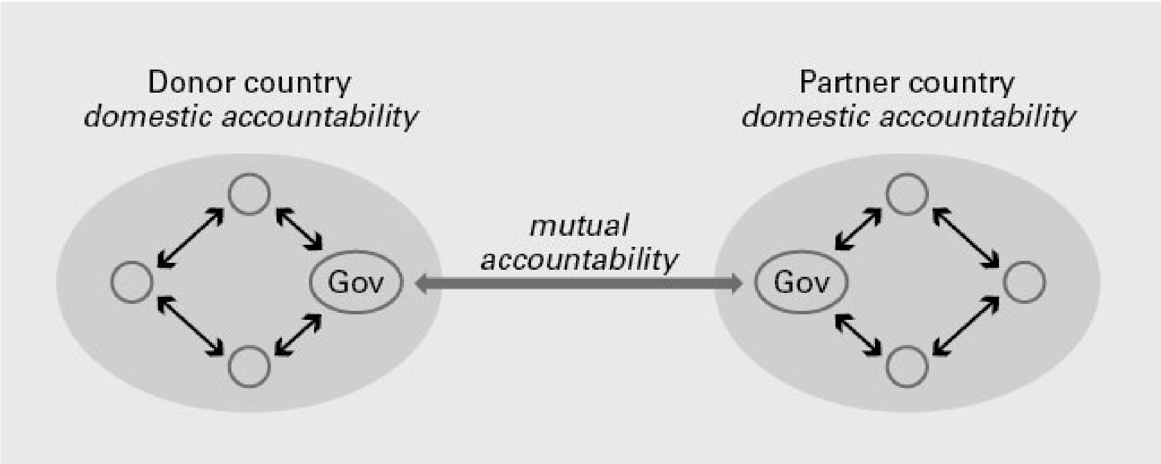
The principles that the Netherlands applies for budget support are based on the Paris/Accra Declaration. One of the principles is mutual accountability: both the donor country and the partner country account to each other for the funds and results. The international community applies this principle in order to enhance transparency and accountability in both the recipient country and the donor country regarding the use of development aid.

Mutual accountability has three core elements (OECD, undated):

- Generating a shared agenda (through shared goals and conditions for the transfer of the donor aid and national development strategies which define what the donor funds will be used for);
- monitoring and reviewing mutual activities, conditions and results (e.g. by means of Performance Assessment Frameworks);
- providing space for dialogue and negotiation (e.g. through joint working groups and consultative groups which include donors and partner government executives, parliamentarians and civil society partners).

Furthermore, the governments in both the partner and the donor country must account in their home countries for the aid received and granted (domestic accountability). Parliament, supreme audit institutions, civil society partners, political parties and the media are stakeholders in domestic accountability.

In theory, domestic and mutual accountability should be complementary. Stronger mutual accountability strengthens domestic accountability and vice versa. Together, they improve the results of development cooperation (ODI, 2009b).



1.3 Problem definition and approach

We investigated how donor and partner countries account for budget support, taking the case of Dutch budget support for Uganda. We first studied international agreements and the Netherlands' development cooperation policy. Against this background, we then outlined the status of Dutch support to Uganda and the way in which the government accounts for it. We also looked at the cooperation with other donors and the role of supreme audit institutions in the donor countries.

All countries that receive budget support are subject to the same conditions, although their implementation may differ from one country to another depending on the actual situation in the recipient country. The case of Uganda illustrates that practice in a country may be far removed from the mutual accountability ambitions of the Paris Agenda. This is due in part to the uneasy relationship in practice between mutual and domestic accountability. We would draw the House of Representatives' attention to this.

This study is not based on a new audit but on information obtained from our pervious review of the Office of the Auditor General of Uganda (Netherlands Court of Audit, 2011)[1] and evaluations by other parties.

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[1] We carried this review out in cooperation with the SAIs of Sweden and Norway. A summary is presented in appendix 1.

1.4 Structure of this report

In chapter 2 we consider the international agreements on development cooperation. We look at the ideals of the Paris Agenda and the donor coordination agreements based on it. Dutch policy on budget support is explained in chapter 3. Our case study of Uganda follows in chapter 4. In chapter 5 we describe the role of relevant donor countries' SAIs. We close with a number of observations on mutual accountability in chapter 7.

2 International agreements

2.1 Agreements made in 2005, 2008 and 2011

In 2005 the governments of 35 donor countries, including the Netherlands, 26 multilateral organisations and 56 partner countries committed themselves to the Paris Declaration to increase the effectiveness of development aid. The Declaration contained five principles (OECD, 2005):

1. *Ownership*
   The partner countries develop their own development policies and plans to reduce poverty. The donors accept that the partner country exercises leadership over its policy.
2. *Alignment*
   Donors align their development aid to the partner country's national strategies and systems. If donors do not consider the systems to be sufficiently reliable, they attempt to improve them rather than create parallel structures.
3. *Harmonisation*
   Donors harmonise their interventions with the partner countries in order to make the collective development effort more efficient.
4. *Managing for results*
   The aid must be directed at the intended results and the available accounting information must be used to improve decision-making on the provision of support.
5. *Mutual accountability*
   The donor countries and the partner countries jointly assess the results of their efforts using existing mechanisms in the partner country.

Mutual accountability
As there is no generally accepted practical definition of mutual accountability, GTZ, the German Agency for Technical Cooperation, elaborated upon the concept in 2009. In traditional accountability, the donor exercises unilateral power and control over the partner, including unilateral monitoring of the partner by the donor. In mutual accountability, the donor and the partner voluntarily work together, with both the partner and the donor country sharing the same values in order to increase the effectiveness of development goals. They seek positive incentives, not hard sanctions for non-compliance (ODI, 2009a).

Donors decided to channel more aid through a sectoral approach and budget support was consistent with the Paris Declaration.

Further to the Paris Declaration, the Accra Agenda for Action was adopted in 2008 (OECD, 2008). Donors and partner countries agreed that implementation of the Paris Agenda should be brought forward and that key points such as the predictability of funding, the use of local systems, transparency and accountability should be deepened. The principles of the Paris Agenda were affirmed in Busan in 2011. Attention was again called to the need to deepen the democratic ownership and predictability of the aid (OECD, 2011c). In these two areas, it was claimed, managing for results, monitoring and evaluation should be stepped up and communication on the progress and strengthening of national capacities should be improved.

Implementation of the Paris Declaration was assessed in 2011. The picture was mixed (see box). The poorest results had been achieved in mutual accountability (ODE, 2011). The Netherlands – it was concluded – had in general made good progress in applying the principles of the Paris Declaration but had struggled to advance in some areas, notably in using the partner countries' systems (e.g. financial procedures, service delivery procedures and administrative systems) and in conducting analytical work jointly with other donors (OECD, 2011b).

Progress implementing the Paris Declaration
• A lot of progress can be seen in the field of good national development policy: the percentage of countries with a good national development strategy has increased from 19% in 2005 to 52% in 2011. There has also been an increase in the number and quality of result-oriented measuring instruments and progress reports. • Modest results have been achieved stimulating civil society, capacity development (still too supply driven), the quality of public financial management systems and the use of those systems, untying aid and increasing the transparency of aid. • Little if any progress can be seen in aid for the public sector, reducing the fragmentation and increasing the predictability of aid, common arrangements or procedures and joint missions/analyses by the donors. Most countries must still start to work on peer reviews of performance (OECD, 2011a).

2.2 Practical Guide to Joint Financing Arrangements

In 2007, a number of European donor countries known as the Nordic+ Group[2] drew up a template with guidance for joint financing arrangements, building on the Paris Declaration (Nordic+, 2007). The Practical Guide to Joint Financing Arrangements is a tool to help aid practitioners involved in multidonor cooperation. Its aim is to enhance the harmonisation and alignment of financing arrangements. The Nordic+ Group explains how donor countries can use these two principles to structure certain aspects of the arrangements and how to act if harmonisation and alignment are not possible. The guide considers audit and accountability and provides guidance on accounting products and methods, such as the use of a Performance Assessment Framework. It also explains how donor countries can check compliance with the arrangements by means of joint review, evaluation and audit.

[2] On establishment in 2000, the Nordic+ Group consisted of the Ministers for Development Cooperation of Germany, the Netherlands, Norway and the United Kingdom. They agreed to harmonise and coordinate their development programmes. They were soon joined by Denmark and Sweden, with other donors following later.

3 Dutch policy

3.1 Policy to the end of 2011

The Netherlands provided budget support even before the Paris Declaration, at first chiefly in the form of GBS. In 1998, the Minister for Development Cooperation decided to reorganise bilateral aid. According to the minister bilateral aid was ineffective and fragmented, there was a lack of good governance in the recipient countries, project aid was uncoordinated, cooperation among donors was weak and partner countries had inadequate control. The minister preferred to concentrate aid on a limited number of countries and sectors.[3]

Ambitions of a sectoral approach
The key features of the proposed changes in Dutch policy were concentration of aid on sectors, demand-driven selection of sectors, fewer earmarked aid modes, increased donor coordination, greater alignment and harmonisation, long-term agreements and stronger national planning and implementation capacity. The proposed changes in partner countries were characterised by greater ownership, stronger implementation capacity in the recipient country and more efficiency (IOB, 2008). The later principles of the Paris Agenda are recognisable in these ambitions.

This sectoral approach also marked the entry of sector budget support into Dutch development cooperation policy. In 2003, the Minister for Development Cooperation summarised the principles of sector budget support as follows: budget support must be linked to the partner country's poverty reduction policy, must be accompanied by policy dialogue and must be based on progress indicators for institutional reforms and policy reforms (BuZa, 2003). He maintained a preference for

[3] In 1998, 119 countries received aid from the Netherlands. In 2002, 36 did, including Uganda. In keeping with the Millennium Development Goals, the Netherlands concentrated aid on primary education, the environment, water, reproductive health and HIV/AIDS (IOB, 2008).

GBS as a matter of principle but emphasised the importance of a good mix of aid modes.[4]

It was established in 2008 that the sectoral approach had contributed to greater donor coordination, the allocation of aid on the basis of government plans, better alignment with priorities and procedures in the recipient country and a gradual reduction in the administrative burden in the donor country (IOB, 2008). The Netherlands scored above average on such indicators as predictability of financing, timely payment, coordination with the partner country's budget cycle, reduction in the number of missions and the use of standard government reports. Some problem areas were also identified.

- The degree of harmonisation and the propensity to restrict joint financing chiefly to northern and western European donors. Major donors such as the World Bank, UN organisations, Japan and the US are rarely involved.
- Ownership results depend in part on the aid dependency and implementation capacity of the partner country's government.[5] These countries usually experience greater donor coordination as an impediment to ownership.
- The shift to sectoral support and budget support is often frustrated by weaknesses in governance in the partner countries. Owing to the strong relationship with the poverty criterion, good governance is not a suitable criterion to select countries. Since 2002, the donor countries' assessments of good governance have therefore placed more emphasis on the partner country's intention to improve.
- The sectoral approach was directed chiefly at the partner country's central government. Donor countries believe more attention should be paid to the institutional strengthening of the local authorities in partner countries.

In response to a growing number of questions in the House on the effectiveness of budget support, the Minister for Development Cooperation replied in 2009 that he wanted to continue using this aid mode (BuZa, 2009). He referred to two 'challenges' to its retention:

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[4] The emphasis on having a good mix of aid modes was based in part on the divergent visions of the missions (embassies, consulates general and permanent representatives). Some missions thought SBS did not provide sufficient opportunities to tackle cross-sectoral problems in their countries. They saw more potential in GBS, in which the partner country could give greater priority to macroeconomic themes. Other missions preferred SBS because this mode facilitated greater technical involvement and more effective dialogue between the donor country and the partner country.

[5] The situation is improving at central government level but not at regional or local government level.

- governments in partner countries still had difficulty preparing and implementing coherent and practicable poverty reduction policies (including their recognition in budgets and action plans, the professionalism of the government, the presence of functioning control mechanisms and accountability for results);
- budget support requires a change in working methods. The Netherlands would have to replace the implementation of its own bilateral programmes by 'alternating between internal decision-making, coordination with donors and dialogue with the partner country. […] A logical consequence is that the Dutch position will not necessarily be decisive and that a partner country can take a route that might be less than desired by the Netherlands.' Partner countries must use and improve their own systems and render account to the local audit institution and parliament (so that donors can render account in their home countries).

Dutch budget support declined further in the years that followed. The decline was primarily in GBS; the number of countries that receive GBS has been halved from ten to five (see box).

Volume of Dutch general budget support in 2011
On its installation in 2011, the Rutte/Verhagen government reduced expenditure on general budget support from € 128 million (BuZa, 2011a) to € 84 million. The number of countries receiving GBS was halved from ten to five. A total of € 65.5 million was ultimately spent on GBS in 2011. This is less than three-quarters of the €90.8 million that the Netherlands, according to a statement by the ministry, spent on general budget support in 2007.

3.2 Policy since 2011

Since 2011, the government has sought a fundamental reform of development policy.[6] The minister explained his reasons for the reform in the Development cooperation baseline letter (BuZa, 2010c) and the Development cooperation focus letter (BuZa, 2011b).[7]

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[6] The reform is based on a report issued by the Scientific Council for Government Policy entitled *Less Pretension. More Ambition. Development aid that makes a difference* (WRR, 2010).

[7] The minister names four policy priorities in the focus letter (water, food security, sexual and reproductive health and rights, and rule of law) and selects 15 countries with which the Netherlands will have an intensive bilateral development relationship.

There have also been changes in budget support since 2012.[8] Growing political and public criticism led to a tightening up of the criteria for budget support. It is though that this will lead to fewer discussions 'at the rear' and that budget support will need to be suspended less often. GBS and SBS must satisfy a basic political assessment of anti-corruption measures, human rights and good governance. An additional assessment is also made of good policy (increasing local incomes, economic stability, growth and development for the poorest), quality of the dialogue and avoidance of negative side effects such as aid dependency.

Until 2012, public financial management in the partner country was assessed chiefly with regard to the role of the Ministry of Finance and the overarching budget process. The missions' knowledge and capacity regarding taxes and public finances will be enhanced by means of training courses; the use of a flexible pool of staff is also an option (BuZa, 2011c).

New procedure: the seven-step approach
A new procedure to prepare the missions' strategies in partner countries was introduced in 2012: the seven-step approach. Changes have been made chiefly at the start of the process (decision-making). The Track Record has been replaced with: (1) a country analysis (general context analysis and a thematic analysis per priority of Dutch development cooperation policy), and (2) an analysis of political risks to the Netherlands as a donor. The choice of budget support is based on these analyses. The mission monitors the risks, makes annual updates and reports essential matters to the Ministry of Foreign Affairs (BuZa).[9] Decisions on new commitments and payments are put to the minister for approval (BuZa, 2011c).

The stricter conditions have led to more limited use being made of GBS. SBS can still be provided for the four policy priorities (public safety and rule of law, food security, water, and sexual and reproductive health and rights) as long as good sectoral results can be shown.

[8] The ministry stated that the new policy had actually been introduced in the new coalition agreement in November 2011. Part of the new policy is that the Netherlands wants to be a reliable donor. Existing commitments were therefore largely respected in accordance with the original policy. New commitments, however, would be subject to new, stricter policy. This led, for example, to Zambia no longer receiving GBS in 2011.

[9] The original idea of having the missions report to the ministries on risk monitoring at least once a year (BuZa, 2011c) has been abandoned and replaced with the procedure described here.

Talks with the ministry revealed that the four priorities were compatible with policy in the Netherlands but perhaps less so with the priorities of the partner countries. There is a risk that international alignment and ownership agreements will not be fulfilled. The talks also revealed that there might be a conflict between assessment and monitoring on the one hand and predictability/multiannual financing requirements on the other.

3.3 Audit and accountability

The Minister of BuZa is responsible for transferring development aid to the partner country (BuZa, 1998). The minister is not responsible for how the partner country spends the aid – either in general or in a specific sector. The minister is responsible, however, for monitoring implementation in the partner country and for intervening if necessary. The minister uses information from the partner country to determine in hindsight whether it has complied with the applicable conditions.

The minister fulfils his responsibilities by overseeing the proper functioning of the process of assessment/decision-making, contracting, monitoring and sanctioning. These four phases have been distinct parts of the procedure to allocate development aid since 2004.[10] The missions play a key role in this process. Budget responsibility for budget support is delegated to the missions. The principles of the Paris Declaration, such as mutual accountability, are recognised in BuZa's procedures and instruments (see box on page 13). In addition to a joint Memorandum of Understanding, the Netherlands – like other countries – concludes a bilateral arrangement with the partner country if its own 'requirements' cannot be harmonised with all donors. In practice, the underlying principles of human rights and good governance that the Netherlands applies as preconditions for budget support are often difficult to harmonise.[11]

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[10] This is a description of the situation in 2007-2011. It is based on BuZa, 2008a; BuZa 2008b; and BuZa, 2010a.

[11] The underlying principles applied by the Netherlands are: respect for the democratic process and for human rights, good governance (including anti-corruption measures and sound management of public funds) and commitment to combating poverty and promoting macroeconomic development (source: interviews at the Ministry of BuZa).

Mutual accountability in BuZa's budget support procedures (situation before 2012, introduction of seven-step approach)
• Where possible, a number of donors offering budget support draft a joint Memorandum of Understanding and lay down their common procedures and preconditions in a Joint Financing Arrangement (JFA). • On the basis of a Track Record, the donors take decisions on granting budget support and monitor progress. The Track Record takes account of the progress indicators in the Paris Declaration. Monitoring is based preferably on indicators agreed jointly by the donors and the partner country's government. The indicators are included in a Performance Assessment Framework (PAF) that the donors measure by means of joint donor review. The outcome of the monitoring serves as input for the dialogue between the donors and the partner country. • On the basis of the Track Record, the mission advises on how much alignment is possible. In principle, 'full alignment' is necessary for budget support. This means that aid must be channelled entirely through the financial systems and procedures of the partner country. This involves more than just budgeting and monitoring/reporting alone. It also comprises internal and external control, expenditure and auditing. The donors take a gradual approach to sanctions and work with like-minded donors wherever possible. The partner country is encouraged to make improvements by means of dialogue for as long as possible.

In 2008, the Policy and Operations Evaluation Department (IOB) found that monitoring and evaluation were not focused sharply enough on measuring effectiveness and impact at regional and local level, particularly regarding poverty reduction. The rationale for monitoring and evaluation was usually technical, apolitical and driven by the donor; greater consideration should be given to the political reasons that facilitate or impede implementation in the partner country. Moreover, lack of time and differences in expertise meant the quality of the missions' monitoring and evaluation was mixed (IOB, 2008).

The Financial and Economic Affairs Department (FEZ) of the Ministry of BuZa also considered monitoring in a study of how the ministry fulfilled its responsibilities (BuZa, 2010a). It concluded that the ministry adequately fulfilled its responsibilities in most areas. Budgetholders' monitoring by means of JAF was acceptable but the results were not always recognised in the decision-making tools (Track Record). FEZ thought the Track Record was inadequate to give the minister a full picture of the political, policy and financial risks of the budget support provided to a country.

Other conclusions from the report related to sanctions policy and political focus. Sanctions policy was sometimes applied more strictly than required. Sanctions were usually imposed in cases of corruption and infringements of the underlying principles. Political attention was focused chiefly on whether a country should or should not receive budget support; performance on poverty reduction was less relevant (BuZa, 2010a).

4 Uganda

4.1 Budget support for Uganda

Uganda is one of six partner countries that have received Dutch SBS. Since 2008, the Netherlands has provided SBS to Uganda for the education sector and the justice, law and order sector (JLOS). The Ministry of BuZa disclosed that the Netherlands gave Uganda € 11 million in SBS in 2008 (€6 million for education and €5 million for JLOS), € 14 million in 2009 (€6 million for education and €8 million for JLOS) and € 18.8 million in 2010 (€ 14 million for education and € 4.8 million for JLOS). Before phasing in SBS at the end of 2008, the Netherlands also provided GBS to Uganda. The embassy thought SBS would provide better opportunities for dialogue with the Ugandan government and achieve more results. The Dutch government has since decided to stop providing SBS to Uganda as from the Ugandan 2011-2012 financial year as the country has consistently failed to comply with the underlying principle of good governance (BuZa, 2011b).

Dutch budget support for Uganda in a wider perspective
In the years 2008-2010, Uganda received approximately $ 1.7 billion a year in bilateral development aid. The Netherlands' contribution to Uganda was approximately $ 83 million in 2008, €45 million in 2009 and $ 36 million in 2010, equal to 0.75% of the total development aid the Netherlands provided through the bilateral aid channel.

4.2 Donor consultation in Uganda

Joint Budget Support Framework

A number of donors to Uganda, one being the Netherlands, have been working together since 2007. They are members of the Joint Budget

Support Framework (JBSF). Uganda is represented in the JBSF.[12] The JBSF partners share the ambition of harmonising budget support for Uganda and to bring it into line with the Ugandan government's policy and budget cycle.

Characteristics of the JBSF
The main features of the JBSF are (JBSF, undated): • Focus on results. • Joint Performance Assessment Framework (JAF): all partners use the JAF to monitor progress and decide their financial contributions. • A transparent decision-making process: the partners link their decisions to the JAF. Decision-making itself is individual. Where possible, the partner countries are working on common procedures for advance payments. • Time path to match the recipient countries' policy and budget cycle (to increase alignment and predictability of financing).

The Netherlands has consulted other JBSF countries and the Uganda government each year on the preconditions and on supervision of implementation. The donor countries objective was to lay down the principles and rules for budget support in a Memorandum of Understanding (MoU), signed by the donor countries and the Ugandan government. For a long time, however, the donor countries could not reach agreement on the principles to be included in the MoU. The Netherlands consistently took the position that political principles such as combating corruption and promoting human rights and good governance should be included in the MoU and should be part of the political dialogue between the donors and the recipient country (BuZa, 2010b). The World Bank and the EU, however, looked upon budget support primarily as a technical instrument, not a means to achieve political ends. The principles included in the draft version of the MoU (JBSF, 2010) are: regional security and stability, democracy, human rights and rule of law. Since Dutch budget support had already been discontinued, the Netherlands did not sign the final version of the MoU.

[12] On its inception in 2007, the JBSF consisted of seven donor countries (Denmark, Germany, Ireland, the Netherlands, Norway, Sweden and the United Kingdom), the EU, the World Bank and the African Development Bank. In 2009, the JBSF partners together gave $ 1.1 billion in development aid to Uganda. The Netherlands contributed 4% of the total ($ 45 million). We could not determine what proportion of the partner countries' contribution was budget support. Austria and Belgium joined the JBSF in 2010.

Joint Assessment Framework
The donors to Uganda succeeded in agreeing a Joint Assessment Framework (JAF) in 2009. The JAF is linked to the Ugandan programme for poverty reduction (JBSF, 2009). It sets out the indicators that the donor countries use to monitor budget support and decide upon their financial contributions. The first three sections of the JAF (see box) relate to the partner country's accountability for the underlying principles and the achievement of sectoral goals. Of the two sectors that the Netherlands has prioritised, education is part of the JAF; JLOS is not. Section 4, the donor side of accountability, relates to the continuity and certainty of aid (predictability and timeliness of payments).

Joint Assessment Framework: four sections

Section 1
Preconditions for effective and efficient implementation of government policies.
- Budget preparation and implementation.
- Public Financial Management reform programme.
- Macroeconomic and fiscal policy.
- Anti-corruption policy.
- Commitment to poverty alleviation.
- Government-donor dialogue.

Section 2
Actions to reform Public Financial Management (PFM) and Public Service Management (PSM), compliance with regulations and avoidance of leakages.
- Funding at service delivery leve.l
- Credibility of the budget.
- Reporting on budget at service level
- Compliance
- Procurement practices
- Taxation and forecasts
- Performance of public servants
- Action on corruption (through effective follow-up on audit report findings)

Section 3
Results in the health, education, transport, and water and sanitation sectors[13]

Section 4
Mutual accountability and predictability of the donors (JBSF, 2009)

[13] The JBSF partners in Uganda decided to focus the JAF on a limited number of priority sectors for the Ugandan government and the donors; the JBSF partners assess these sectors using a limited number of indicators. As the first version of the JAF covered the full scope of the Poverty Reduction Strategy Paper, other countries found the monitoring framework difficult to apply.

Audit and accountability agreements (JBSF, 2010)

Audit and accountability are based on the principle that the JBSF partners carry out their consultations, evaluations, decision-making and payments jointly wherever possible using the indicators and targets in the JAF. A time path is set for alignment with the Ugandan budget cycle. The annual progress assessment is carried out in a variety of ways. The Ugandan Office of the Prime Minister carries out an Annual Performance Review using Sector Performance Reports prepared by the relevant line ministries. The donors validate these reviews, making use of the regular reports of the Ugandan government listed in an annexe to the MoU (see box, p. 19). Donors can also consult other, unspecified, information sources, government representatives and civil society groups and, if necessary, carry out their own analyses. The donors present their findings in a JAF Appraisal Report.

Role of the Ugandan Office of the Auditor General
The Annual Audit by the Ugandan Office of the Auditor General is one of the regular reports that the Ugandan government provides to the donor countries. The Annual Audit must be carried out in accordance with international standards and must consider the budgetary expenditure and the budget support accounts of each JBSF partner. If the Annual Audit does not meet the donor countries' expectations, they can ask the Office of the Auditor General to carry out an additional audit or – in consultation with the Office of the Auditor General – have their own additional audits carried out (JBSF, 2010).

The JAF Appraisal Report serves as the input for an annual policy dialogue between the donor countries and the Ugandan government. The report also forms the basis for the individual donors' decisions on future SBS. In addition to the policy dialogue, the donor countries and the Ugandan government hold a political dialogue on the underlying principles. The dialogue is held in a variety of forums, such as the JAF (under section 2) (BuZa, 2010b).

The JLOS institutions (Minister of Justice, head of police, judicial authorities) are important partners in the assessment of the progress made with the underlying political principles. As JLOS is not a JAF sector, the SBS donors in the JLOS sector monitor progress by means of annual JLOS progress reports and the joint JLOS and DGP Review. As part of this review, the JLOS partners present a joint assessment of the progress made (as from 2010/2011).

4.3 Bilateral arrangements between the Netherlands and Uganda

Before 2012, when the joint MoU was launched, the donors made annual bilateral arrangements with Uganda. The SBS arrangements that the Netherlands made with the Ugandan Ministry of Finance regarding education (BuZa, 2010d) and JLOS (BuZa, 2010e) recognise the principles of the Paris Declaration, including mutual accountability (see box).

Mutual accountability in BuZa's budget support procedures

- The education and JLOS arrangements link the provision of SBS to policy plans prepared by the Ugandan government (the Education Sector Strategic Plan 2014-2015 and the JLOS Strategic Investment Plan 2006-2011).
- Both arrangements lay down that the financial accounts kept for SBS must comply with the customary regulations and procedures of the Ugandan government.
- In both arrangements, monitoring is consistent with the JAF. The agreements on SBS in the education sector lay down that the JAF indicators will be used for monitoring and decision-making on further support. The agreements on SBS in the JLOS sector lay down that an assessment of the underlying principles of the JBSF (specifically regarding the fight against corruption) will be part of the decision-making on further support.

The SBS arrangement on education states that the Ministry of BuZa can demand repayment of at least some of the funding if Uganda does not comply with the commitments or if the funds are not spent in the agreed manner. The Ministry of BuZa itself found that repayment of SBS was not an option and was contrary to its own regulations, which state that 'SBS is not dependent on retrospective reports or the results achieved' (BuZa, undated).

4.4 Audit and accountability

The SBS arrangements on education and JLOS also include audit and accountability agreements between the Netherlands and Uganda. The agreements are based on the principles of alignment and mutual accountability.

- The Ministry of BuZa receives a number of regular informative reports from the Ugandan Ministry of Education and from the Justice, Law and Order Sector.
- The Ministry of BuZa receives a copy of the annual Audit Report of the Ugandan Office of the Auditor General from the Ugandan Ministry of Finance.
- The Ministry of BuZa may take part in the reviews, monitoring and evaluations carried out by the Ugandan Ministry of Finance.

In line with internal regulations, there is also a provision that the Ministry of BuZa retains the right to carry out its own financial audits of the use of funds.

As the budgetholder on behalf of the Ministry of BuZa, the Dutch embassy in Uganda is responsible for monitoring progress[14] and for the JAF Appraisal Report prepared jointly by the donor countries within the JBSF. The annual Track Record and reports inform the ministry of the results of the monitoring, the policy dialogue and the political dialogue. An investigation by the ministry's Financial and Economic Affairs Department found that the monitoring of JAF effectively covered the Ministry of BuZa's accountability (BuZa, 2010b).

4.5 Problems on the ground

The aims of the Paris Agenda are clearly reflected in the donor coordination agreements and in the Ministry of BuZa's policy on Uganda. Evaluations and interviews with staff at the Ministry of BuZa revealed, however, that there were obstacles to achieving the Paris Agenda in practice. JBSF donor countries must meet the expectations of their own parliamentarians and civil society partners. The problems are due in part to the principles and rules used by the JBSF donor countries for domestic accountability.

- In practice, JBSF donors adopt different positions on the underlying principles, which leads to them not always acting in unison (in a JBSF context). In June 2009, for example, the Ministry of BuZa decided to suspend payment of SBS in the light of reported irregularities. It did not try at the time to reach agreement with other JBSF donors, with a view to joint action, on the suspension of payments. The reason given was that the ministry did not want to jeopardise an investigation of the irregularities by going public (BuZa, 2010b).

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[14] It does so by means of quarterly financial reports issued by the Ugandan Ministry of Finance on GBS payments and the annual audit by the Ugandan Office of the Auditor General.

- The decision-making instruments the Ministry of BuZa uses for SBS (such as the Track Record) do not arrive at consistent conclusions. 'It is [also] actually an illusion that something as complicated as the economic, political, human rights and good governance situation in a country, which in many respects is distant from ours, can be assessed technically as though it were a simple sum' (IOB. 2008). Furthermore, for domestic political reasons the state secretary can take a decision on budget support that is at odds with the embassy's analysis in the Track Record.
- The donors have doubts about the reliability of the information underpinning the JAF indicators provided by the Ugandan institutions.[15] The Netherlands and other countries include provisions in their bilateral arrangements so that they may carry out their own audits. Strictly speaking this is not in agreement with the principles of alignment and mutual accountability (BuZa, 2010b; Netherlands Court of Audit, 2011).
- The donors consider the Ugandan Office of the Auditor General to be an important link in the accountability process but do not have adequate assurance on the reliability of its reports and therefore cannot rely on them for their own work (Netherlands Court of Audit, 2011).

We also found criticism in the literature about the way in which plans are prepared in partner countries and are assessed by donors. Since donors and consultants paid by donors in different countries offer their own advice on the organisation of development policy, the resultant standard approach does not neatly match the specific needs of the partner country. Nevertheless, the partner countries' policies are welcomed by the donors, as in the case of Uganda. De Lange warns in this respect of a 'façade government', a government that at first sight looks good and has a policy (including laws, regulations and budget systems) but where there are still many problems in implementation (lack of efficiency, corruption and leakages). Donor countries must not presume that fraud and corruption do not exist in the poor countries they support. They must make a good estimate in advance of the extent to which funds will be lost in this way in the partner country. A good assessment requires information on the donor country's achievement of its goals by means of the aid it provides

[15] This was pointed out in the JBSF in the context of the second review based on JAF criteria (Netherlands Court of Audit, 2011). The issue was also raised in the analysis in the Track Record. The Ministry of BuZa's internal audit department (ACD) has regularly asked the missions to address this problem (interview, ACD). The embassy has invested in improving the reliability of the statistical information generated by the Ugandan Bureau of Statistics.

(value for money), for example in the fields of poverty reduction and good governance (De Lange, 2011).

5 HOAP initiative of SAIs

5.1 Objective and achievement

One of the goals of the donor countries in the Nordic+ Group was to alleviate the reporting burden on the partner countries. The SAIs of eight donor countries accordingly set up the Harmonisation of Overseas Audit Practices (HOAP) working group in 2000 to harmonise audit practices where they provide budget support and donor agreements are harmonised.

In 2003, the HOAP group developed an approach to implement a joint review. The aim of this single audit approach was to arrive at an opinion on the regularity of the expenditure of harmonised development aid. The HOAP SAIs used the findings of the joint reviews to form an opinion on the funds that their countries had provided. This would alleviate the audit burden on the partner country. The positive attitude to joint audits, however, did not deny each country the right to collects its own additional information. Since the working group's establishment, the HOAP countries have carried out three joint reviews: in Zambia (2004), Tanzania (2006) and Mozambique (2008).

The Netherlands Court of Audit was approached by the Dutch embassy in Kampala in 2011 with the question of whether (and, if so, how) the Ugandan Office of the Auditor General could be supported (capacity building). We contacted SAIs of the JBSF countries with a view to reviewing the Office of the Auditor General. Some responded negatively but Sweden and Norway agreed. The Netherlands also saw the review as an opportunity to give the HOAP a new impulse.

5.2 Obstacles

From the very first meeting in 2000, the participating SAIs were aware of the differences in their audit approaches, particularly regarding their reliance on internal audits carried out by their Ministries for Development Cooperation. The participating SAIs also thought differently about the potential role of the SAI in the recipient country and they did not agree on the reliance placed on each other's reports. The members of the Nordic+ Group were also critical of the HOAP audit approach. They thought HOAP should confine itself to assessing the structure of the monitoring system; a review of local audit offices went far too far for the donors. HOAP eventually concluded that its original goal (relieving the audit burden on developing countries) had not been achieved owing to the limited number of joint reviews carried out. The individual SAIs thus felt compelled to continue carrying out their own audits.

A situation in which both the SAIs and the Ministers for Development Cooperation of the donor countries can rely on a single report from the partner country proved unfeasible.

6 Conclusion

Mutual accountability is an important aspect of the Paris Agenda. It requires donors and recipient countries to account to each other for the use of development funds by means of a partnership that promotes ownership and accountability in the recipient country. In practice, there is an uneasy relationship between mutual and domestic accountability, in both the donor and the partner country. The increased pressure on donor countries to account for development aid in recent years is at odds with the principle of mutual accountability, which requires donors to refrain from asking for additional accounting information. To relieve the pressure, the Ministry of BuZa has opted to set stricter demands on a country wishing to qualify for support. The ideals of mutual accountability are put to the test if governance and institutions in the partner country are weak (ODE, 2011)

The uneasy relationship between mutual and domestic accountability can also be seen in the budget support provided to Uganda. This study found that in an international context the principles of the Paris Agenda are incorporated into appropriate arrangements: by the Nordic+ Group of donors to Uganda within the context of the JBSF and by a number of donor SAIs within the context of HOAP. We also found that the principles applied by the Dutch Ministry of BuZa had been incorporated into budget support procedures.

There are encouraging signs in the design of mutual accountability but implementation is more problematic.

- Individual donor countries often need to make their own demands on partner countries, usually for domestic political reasons. These demands are laid down in bilateral agreements. In principle, the Netherlands provides budget support only if the partner country fulfils the principles of human rights and good governance. Other donors (such as the World Bank and the EU) do not make such demands for budget support.
- The Netherlands provided budget support to Uganda partly to reduce poverty, improve governance and facilitate policy dialogue. Decision-making on the continuation of budget support is always influenced by

political considerations, such as whether a country should actually receive budget support.

- The donors and the Ugandan government have based their agreements on the principles of alignment and mutual accountability. In practice, the donors need to carry out their own audits, partly for domestic accountability purposes but also because their assessment and quality criteria differ from those of the Ugandan institutions. The latter's assessment and quality criteria are not compatible with the domestic accountability criteria of the donor countries.

The SAI community is aware of the challenges presented by mutual accountability. One of the reasons that HOAP had difficulty establishing a framework for joint audits was that the SAIs' tasks were framed by the rules of domestic accountability in their home countries.

Budget support is intended to provide long-term support so that recipient countries can develop themselves. It is conducive to ownership and predictability. It requires a clear and consistent approach by donors such as the Netherlands. The approach must be harmonised wherever possible among the donors that are active in a recipient country.

Development cooperation is more efficient and effective if donors make joint agreements on the aid they provide and the goals they expect the partner country to achieve. This requires donors to work together to agree a baseline analysis, statement of commitment, set of definitions, implementation and accounting mechanisms and progress indicators, not only for the recipient country but also for public accountability purposes in each of the donor countries. Mutual accountability will not fulfil its potential until the aid and accountability agreements between the donors and recipient countries can also be used for domestic accountability in the donor country.

A good relationship between the provision of support and domestic accountability requires the donor country to decide in advance whether and when it will provide, suspend or discontinue budget support (possibly in combination with capacity building) The donor country must inform the partner country of its decision and the applicable criteria. The two should then make concrete agreements on the partner country's accountability and the requirements of the donor country.

The above implies that the House of Representatives and the State Secretary for BuZa must make agreements in advance on the method and frequency of accounting for the support provided. Emphasis should be placed on accounting for the agreements made with the partner country over a longer period of time. During this period, the donor country must exercise restraint when requesting accounting information in addition to that agreed in advance.

7 Response of the Government and the Court of Audit's afterword

We forwarded the draft version of our report for comment to the outgoing State Secretary for Foreign Affairs. The state secretary responded to the draft report on 1 October 2012. His response is presented in full in section 7.1 and our afterword in section 7.2.

7.1 Response of the State Secretary for Foreign Affairs

'Your study correctly underlines the importance of accounting for the effectiveness of development aid by both donors and recipient countries ("mutual accountability"). Both sides have commitments regarding the effective achievement of development results and must hold each other accountable: donors for the way in which they provide aid and recipient countries for the way in which they use it. Mutual accountability strengthens a stable and predictable aid relationship and thus the achievement of results.

I agree with your observation that there can be an uneasy relationship between the importance of stable development financing and the preferences and priorities of donors for which they have domestic accountability. This is also the case in budget support, as you noted in the case of Uganda. Your study refers to the different requirements set by the donors on partner countries when deciding whether to provide or continue support, usually for domestic political reasons.

You conclude that the most efficient and effective way for donors to manage this relationship is to make joint agreements on the aid they provide, the goals to be achieved by the recipients, the monitoring of progress and accountability. Donors and recipient countries can use the agreements to render account to each other and to their citizens.

This is consistent with the current practice of Dutch budget support. General and sector budget support have been accompanied in recent years by clear multiannual agreements (often for three or four years) on poverty reduction goals, progress measurement and dialogue on the results. There has also been close coordination and joint action with other budget support donors. The Netherlands has always actively pursued harmonisation among donors, also in Uganda. The accounts rendered to the House of Representatives have been based on those agreements. This has worked adequately: the Netherlands has never suspended its budget support owing to lack of development results.

Aid has been suspended or discontinued where human rights or democratic principles were infringed, or in cases of corruption. The bilateral relationship with a partner country comprises not only poverty reduction and its effectiveness but also wider social considerations. The provision of budget support implies support for the entire policy of a partner country. The Netherlands' decision to provide general or sector budget support as a development instrument has always required the partner country to provide appropriate assurances on essential basic values such as protection of human rights and democratic principles, combating corruption and the principles of the rule of law. These underlying principles are laid down in the agreements on budget support as a precondition for the aid relationship.

The Netherlands has entered into budget support agreements with a number of countries on these grounds. Such specific agreements on underlying principles have not been able to prevent budget support being discontinued in some cases over the years.

These experiences with budget support have led me to be more cautious about entering into this form of financing. Budget support is effective chiefly when it can be provided over a longer period of time. I will therefore use this instrument only if I am convinced that the recipient country will share our position on general policy and the adequacy of results over a longer period of time. Before providing either general or sector budget support, I will also check in advance whether there is corruption, whether human rights are respected and whether good governance is in place. I will also promote this stance in the EU. It has contributed to EU agreements in which human rights, democracy and the rule of law are specifically taken into account before the EU provides general budget support. The member states together make a political decision before deciding on general budget support.

I will leave a decision on the conditions for the future provision of budget support to the new government.'

7.2 Court of Audit's afterword

The state secretary agrees with our observation that there can be an uneasy relationship between the importance of stable financing and domestic accountability. In his opinion, the current practice of Dutch budget support already agrees with our conclusion on how the relationship should be managed. The state secretary did not consider a number of issues raised by our study. Important steps have been taken in the field of donor harmonisation but the case of Uganda shows that there is still a long way to go. Improvements can also still be made in mutual accountability. We call on the donor countries to exercise restraint when requesting additional accounting information not agreed upon in advance. Such restraint was one of the issues not considered in the state secretary's response.

Appendix 1 High Level Overview

Executive Summary (Netherlands Court of Audit, 2011)
The Office of the Auditor General of Uganda (OAGU) gained functional independence in October 2008 and has made considerable progress in professionalising its audit activities. In the past, the OAGU had a problem reporting on a timely basis to Parliament but this problem has been solved and the OAGU now publishes its annual financial reports on time. A clear procedure exists that enables the three Parliamentary Accounts Committees of the Ugandan Parliament to organise hearings and debates of the OAGU's conclusions and recommendations. While these committees have made progress in looking back and dealing with the several years' backlog, it is unfortunate that their work on the OAGU's audit reports is not logically brought to conclusion in the plenary of the House as is the procedure, hence creating a backlog at that stage. This backlog frustrates the issuance of Treasury Memoranda and thus makes the OAGU's reports to a large extent ineffective. The OAGU does not have the power to solve this problem of the follow-up, which is a parliamentary matter.

The functioning of the OAGU is greatly compromised by the sheer number of audits (1,300) that has to be conducted each year. The main challenge ahead for the OAGU is to find a solution to the legal obligation to audit all the 1,300 accounts published each year. This is on top of other audits such as Value for Money (VFM) and forensic audits and requires a strategic choice that is linked to the OAGU's role within the Ugandan Public Financial Management (PFM) and its added value in the light of the newly enacted Audit Act and its external communication with stakeholders. And the key issue for the embassy and several other donors in view of this state of affairs is whether audit criteria should be based on legal provision or risk mapping, which would necessitate amendment of the law.

In relation to the primary process of auditing, there is room for improvement in a number of critical technical areas. Important challenges in relation to improving the auditing work consist of a number of issues such as better focus of the audit scope, risk management, audit standardisation and planning, proper documentation and archiving, quality control and assurance, coordination with other control and audit bodies and auditees. Particular attention should be paid to issuing a procedure for dealing with indications of corruption found during the audit process.

For these improvements in the audit work to be effective and sustainable, the organisation's management must be professionalised by transforming a number of strategic elements. There are internal and external challenges ahead that also should be part of the OAGU's new strategic period after 2011.

The internal challenge is that the OAGU must professionalise its management procedures. In recent years, emphasis has been given to training and increasing staff and this should now be complemented with an internal process of management reforms. This professionalisation should take shape by integrating and connecting the eleven branch offices and their 150 staff with the central office in Kampala. Additionally, the organisation has to wean itself from the public service structure in which it previously operated by reforming its corporate identity and professional attitude. This includes a true staff assessment procedure with a carrot-and-stick approach that rewards those who excel and corrects those who can do better. The substantial increase in staff salaries should allow senior management to be more demanding and apply higher standards than before.

The OAGU should also seek a certain degree of understanding on its strategy through open communication among members of senior management, auditors, and support staff to develop a shared understanding of the needs and challenges. Attention should be paid to facilitate internal communication and sharing information horizontally, especially between headquarters and branches.

Additional financial resources and extra staff may be considered easy solutions but are no panacea for solving problems. It is not unthinkable that a substantial increase in staff might exacerbate existing problems and prevent the OAGU making fundamental changes at a strategic level.

The external challenge is that the OAGU should articulate its profiling with its main stakeholders and strengthen its external communication. We recommend that the OAGU considers its future position in the Ugandan Public Financial Management (PFM) and accountability context and analyse its strengths and weaknesses. Critical factors to consider include the relationship with the Ministry of Finance, Planning, and Economic Development (MoFPED) and with Parliament.

Appendix 2 Abbreviations

GBS	General Budget Support
ACD	Internal Audit Department
BuZa	Ministry of Foreign Affairs
DEC	Effectiveness and Coherence Department
FEZ	Financial and Economic Affairs Department
HOAP	Harmonisation of Overseas Audit Practices
IOB	Policy and Operations Evaluation Department
JAF	Joint Assessment Framework
JBSF	Joint Budget Support Framework
JFA	Joint Financing Arrangement
JLOS	Justice, Law and Order Sector
MoU	Memorandum of Understanding
OAGU	Office of the Auditor General of Uganda
PFM	Public Financial Management PSM Public Service Management
SBS	Sector Budget Support

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